

# The Kirk Report

**one pro's view of the stock market**

Below is the full 2010 Bespoke Roundtable Q&A with Charles Kirk of [The Kirk Report](#).

**1) What has surprised you the most and least about financial markets in 2009?**

*I think like much like everyone else, both the length and degree of the rally from the March lows without a major correction was the most surprising. The least surprising is that we rallied this year following historic, panic-induced oversold conditions.*

**2) What do you believe are the most important lessons to be learned from the 08/09 financial crisis?**

1) *Capital preservation is always more important than capital accumulation.*

2) *Wall Street is undergoing changes in ways that will make our markets more volatile than ever before.*

3) *America has significant challenges that must be addressed to restore its economic leadership over the world. If nothing is done, the standard of living for most of its population will be in decline over the next decade.*

**3) How has the 08/09 bear market impacted your view on asset allocation and investing as a whole?**

*The same methods that served me well continue to do so. However, I think it is clear to most by now that 1) proper risk management is the most important part of investing successfully, and 2) trading the market you see not the market you expect to see is key.*

**4) What are the various indicators that you follow closely telling you right now about where the stock market is headed? Which indicator is the most significant in what it is forecasting?**

*I follow fundamental, technical, and sentiment indicators in my approach. The most interesting right now has to be sentiment. Most investors still do not trust the market and are skeptical of the economy. Meanwhile, the professional who can't afford to produce underperformance following disasters in 2008 has no choice but to stay up with the market. Herding groupthink at its finest on both ends.*



# Bespoke 2010 Roundtable

## 5) Starting with 100% cash, how would you allocate it to various asset classes to start the new year?

*In long-term investing accounts, I utilize a passive/aggressive approach. The model is as follows:*

- 10% in Rydex S&P Equal Weight ETF (RSP)
- 10% in Vanguard Value VIPERs (VTV)
- 10% in Vanguard Small Cap Value VIPERs (VBR)
- 10% in WisdomTree International Small Cap Dividend Fund (DLS)
- 10% in PowerShares DB Commodity Index Tracking ETF (DBC)
- 10% in iShares MCSI EAFE (EFA)
- 10% in iShares MSCI EAFE Value Index (EFV)
- 10% in Vanguard Emerging Markets VIPERs (VWO)
- 10% in 2 Sector-Specific ETFs (like (GLD) or (UUP))
- 10% in individual stocks

*An 80% equities position spread across various assets is the correct approach. However, I do use trailing stops on all positions.*

## 6) What do you believe will be the dominant investing themes of 2010? What will be the biggest surprises of 2010?

*Cloud Computing  
Clean Energy  
Energy Infrastructure  
Battery Development  
Healthcare*

*Big surprises? If I knew that, it wouldn't be a surprise would it?*

**7) What is your current view on Buy & Hold as an investment strategy?**

*Investors who have not proven a consistent track record of surpassing the market's performance (minus all commissions and taxes) over a lengthy period of time (three years or longer) should continue to utilize a passive portfolio strategy like those recommended by me and others. Once that kind of portfolio allocation is put into use, however, at that point investors should explore implementing basic risk management strategies based on the Faber model or variants of it using average true range stops and the like. See [The Kirk Report](#) for more information on how to accomplish this.*

**8) What do you believe is the contrarian call on equities right now? The economy? Is investor sentiment currently misplaced?**

*That the market's performance in 2010 will greatly exceed the performance in 2009. The same is true for the economy.*

*Individual investors have the view that market performance should be directly tied to what they're seeing in the economy. While that may be true over the long run, in the short-term it is all about emotions and perception.*

**9) Which sectors should investors be overweight/underweight heading into 2010?**

*Underweight precious metals and weak dollar plays. Overweight technology and healthcare.*

**10) What is in store for the US economy in 2010 (V-shaped, double dip, U-shaped)?**

*Large scale volatility (ups and downs) both for the market itself and for the economy.*

**11) Will we see a jobs recovery in 2010?**

*Yes. The government will manufacture the numbers to support continued stimulus and easy Fed policy for as long as possible.*

**12) The real estate market has seemingly taken a back seat in terms of media coverage at the moment. What's in store for real estate in 2010, and how will it impact your investment decisions?**

*Much like the economy, we'll see lots of mixed data but no significant improvement or decline from these levels.*



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## **13) When will the Fed begin to raise rates, and will this be too early, late, or just about right?**

*The Fed will not raise rates. In fact, they may even lower them further through other methods. For example, I expect mortgage rates to be under 3% by the end of 2010.*

## **14) How worried are you about inflation?**

*I am not worried. It rarely pays to be worried about something that everyone else is already worried about.*

## **15) How worried are you about the decline of the dollar, and do you see the greenback making a comeback in 2010?**

*I believe the dollar will rally in 2010, but trade in a volatile manner much like most worldwide markets.*

## **16) What are your current thoughts on gold - bubble, just the beginning, or just about fair valued?**

*We are probably still only in the early innings of this bubble. The sector is good for traders with tight risk controls, and a nightmare for others who will chase the returns and get killed when people rush for the exit door.*

## **17) Oil has largely been forgotten given the current focus on gold and the dollar. Will the price of oil have a major impact on stocks and the economy in 2010?**

*I'm bullish on oil prices, but it won't have that much of an impact on the overall economy as prices will remain fairly contained within a range.*

## **18) We've just gone through a decade where emerging markets largely outperformed the G-7 countries. Do you foresee this trend continuing in the coming years, or will developed countries begin to make a comeback?**

*Emerging markets will continue to outperform the U.S. although volatility will be much greater than we've seen in the past.*

## **19) Which emerging markets are you most/least excited about heading into the next decade?**

*Most excited about India. Least excited about Russia.*



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**20) At the peak of the crisis, the prevailing theory was that Wall Street was dead as we knew it. After the rebound we've seen, many people think it's now back to business as usual. What are your thoughts on this?**

*Traders are more cautious and gun shy and have a low tolerance for loss. But, nothing systematically has changed, and with the "too big to fail" policy in place, we are likely to be in the first stage of yet another bubble-like move for the markets.*

**21) What will be the biggest impact Washington has on Wall Street in 2010?**

*If they pass any trader tax (which I don't think they will this year, but probably will eventually), it would have huge ramifications for individual investors and the market place.*

**22) What do you think are currently the biggest disconnects between Wall Street and Main Street? Wall Street and Washington? Washington and Main Street? How can we correct this?**

*The powerful are getting more powerful. The rich are getting richer. That's always been true, but the trend will become even stronger in the years to come. Think of Cuba. Unless we undertake massive financial reform, America will look like Cuba in less than 10 years.*

**23) Will the following be up or down (positive or negative) in 2010? Where noted, what are your 2010 year-end target prices?**

*-S&P 500: Up, 1,553*

*-Long-Term US Treasuries: Down*

*-Corporate Bonds: Down*

*-High Yield (Junk) Bonds: Down*

*-Gold: Up*

*-Oil: Up*

*-Dollar: Up*

*-Average US Home Prices: Down*

*-China's stock market: Up*

**24) Please provide readers with any stock ideas that you really like right now and for 2010 and beyond (and why).**

*Drug stocks like Pfizer (PFE) are going to reap big rewards through healthcare reform.*



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**25) Do you have any other advice that you would like to share with readers heading into next year?**

*In every year, the market provides one or two excellent buying opportunities while the rest of the time investors would be well-served by staying patient. Focus yourself on finding and exploiting only the low risk/high reward opportunities, and you'll have a great year in 2010!*